Postal Regulatory Commission
Submitted 1/11/2023 9:57:38 AM
Filing ID: 124198
Accepted 1/11/2023

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Costing Treatment of Retirement Debt Relief	Docket No. RM2023-1
Periodic Reporting (Proposal Eight) (Retiree Health Benefit Normal Costs)	Docket No. RM2023-3

REPLY COMMENTS REGARDING
THE APPROPRIATE ANALYTICAL PRINCIPLE
FOR RETIREE HEALTH BENEFIT NORMAL COSTS
(January 11, 2023)

The undersigned mailer organizations ("Mailers") respectfully submit this reply to the response of the Postal Service[1] to the Mailers' motion (filed December 19, 2022) for reconsideration of Order No. 6363[2] or, in the alternative, petition to change an analytical principle pursuant to 39 C.F.R. §3050.11 to ensure that FY 2022 retiree health benefit normal costs are treated as accrued in FY 2022 and distributed as attributable or institutional in the same manner as they have been in every year since FY 2008.

First, the burden of proof does properly rest on the Postal Service. Mailers timely filed their motion for reconsideration. If Order No. 6363 is construed as a final order, then that order, by operation of 39 C.F.R. §3010.165, became not final due to the motion. Nor can the Postal Service find authority for

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1 *Response of the United States Postal Service To Mailers' Motion for Reconsideration and Petition*, Dockets Nos. RM2023-1 & RM2023-3 (Jan. 4, 2023).

2 Order No. 6363, Docket No. RM2022-3 (Dec. 9, 2023) (Order Granting Petition, In Part, For Reconsideration).

its treatment of retiree health benefit normal costs in the Commission Secretary's October 7, 2022, letter.[3] That letter – which was issued without the Commission having initiated a proceeding or inviting public comment and without a proceeding pursuant to 39 C.F.R. §3050.11 – did not even mention the retiree health benefit normal cost issue, much less rule on it.

Second, nothing in the Postal Service's January 4, 2023, response supports ignoring retiree health benefit normal costs in the annual compliance review or other costing reporting systems. The Postal Service does not deny that postal employees earn their retiree health benefit costs as they perform their jobs. *USPS Response* at 9. Rather than acknowledging that those earned benefits are part of the economic costs of handling mail, and thus must be considered in regulatory reviews, the Service diverts the focus to the timing of their funding.

But the Postal Service Reform Act did not mandate changing the treatment of retiree health benefit normal costs, despite the Postal Service's efforts to make it seem so. The PSRA addressed solely the timing of payment, not the regulatory handling of the cost. The PSRA did not absolve the Postal Service from the responsibility for normal costs or authorize the Commission and Service to ignore the full economic costs of handling mail. Indeed, Congress did not touch the governing legal standard that attributable costs are "the direct and indirect postal costs attributable to each class or type of mail service through

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[3] *Letter to Richard T. Cooper from Erica A. Barker* (Oct. 7, 2022).

reliably identified causal relationships."[4] Nor did the PSRA direct the Postal Service to abandon its systemwide accrual costing for this one specific cost.[5] And the Postal Service's accounting handbook states: the Postal Service record revenues when earned and expenses when incurred, regardless of when the related assets and liabilities are collected or paid." United States Postal Service, *Handbook F-1, Accounting and Report Policy*, at Sec. 2-1.2

Information filed in the Postal Service's Annual Compliance Report – submitted 10 days after Mailers filed their motion/petition in these dockets -- \ underscores how omitting retiree health benefit normal costs from postal accounting has real world consequences. The Mailers' motion/petition stated (at 9) that:

> Omitting a portion of the direct and indirect labor costs from the calculation of avoided costs would unavoidably result in underestimates of cost avoidances, which in turn would lead to inefficiently priced workshare discounts. It could also result in erroneous conclusions that some discounts exceed their avoided costs, triggering rate adjustments that would result in much less efficient rates.

The Postal Service's *FY2022 ACR* confirmed that statement. The omission of more than $2 billion of attributable costs[6] makes material changes to workshare discount passthroughs compared to if those costs were included.

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[4] 39 U.S.C. §3622(c)(2); *see also* 39 U.S.C.§3631(b).

[5] Other costs have similar timing mismatches between incurrence and funding, with accrual tied to incurrence. The Postal Service pays for equipment in the year purchased, but the costs accrue over time according to depreciation schedules. Annual leave accrues as one works, but the Postal Service may not pay for that time for years.

[6] Retiree health benefit normal costs for FY2022 would be approximately $4.4 billion according to the Postal Service's 10-K for FY2022, of which Mailers estimate that about $2.4 billion would be attributable and thus included in cost coverage and avoided cost calculations.

As a result of ignoring retiree health benefit normal costs, the *FY2022 ACR* reports numerous workshare discount passthroughs that are marginally above 100 percent despite being set equal to 100 percent only three months ago in Docket No. R2023-1.[7] Each of these discounts are now reported as more than 100 percent solely due to reduced estimates of avoided costs, which in turn is very largely due to the omission of $2.4 billion in attributable costs. For example:

- First-Class QBRM Letters and Cards (104.8 percent, compared to 100 percent set in Docket No. R2023-1);
- First-Class Automation 5-Digit Flats (100.5 percent, compared to 100 percent set in Docket No. R2023-1);
- First-Class Nonautomation Nonmachinable 5-Digit Letters (101.9 percent, compared to 100 percent set in Docket No. R2023-1);
- First-Class Nonautomation Nonmachinable Mixed ADC Letters (121.2 percent, compared to 100 percent set in Docket No. R2023-1); and
- USPS Marketing Mail Automation AADC Letters (105 percent, compared to 100 percent set in Docket No. R2023-1).

Comparing *FY2022 ACR* at 11-13 & 22 with *Notice of Market-Dominant Rate Adjustment*s, Docket No. R2023-1, Attachment B.

In addition, the Postal Service notes in the *ACR* that in the case of six Marketing Mail Parcel categories whose passthroughs are reported as exceeding 100 percent, the passthroughs had been set at 100 percent in both Dockets Nos. R2022-1 and R2023-1, but “[t]he sole reason for these passthroughs to be out of

[7] The *FY2022 ACR* compares costs to rates set in Docket Nos. R2022-1 and R2023-1. However, the costs (and avoided costs) from the FY2021 ACD are the basis for the rates in both dockets. The reduced costs in the *FY2022 ACR*, if approved in the Annual Compliance Determination, would significantly disrupt rates and workshare discounts in future rate adjustments.

compliance in the instant docket is the change in cost avoidance between ACR2021 and ACR2022." *FY2022 ACR* at 26.

The *FY2022 ACR* also reports that a number of workshare discounts set at below 85 percent passthroughs in Docket No. R2023-1 would now appear to have larger passthroughs – again almost entirely due to the omission of more than $2 billion in attributable retiree health benefit normal costs from the calculations. Erroneously understated costs avoided will result in inaccurate compliance findings with respect to prevailing workshare discounts, resulting in rate adjustments that may frustrate rather than further the Commission's stated goals of pricing and operational efficiency. It will also impede efforts to move inefficiently low passthroughs to more efficient levels.

Accordingly, the undersigned respectfully urge the Commission to again hold that normal costs accrued in FY 2022, as they have in every year since FY 2008, that such accrual was unaffected by the Postal Service Reform Act, and those normal costs should be distributed to attributable costs in the same manner as in past years.

Respectfully submitted,

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